

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary - Public

Date: 2010-07-02

GAIN Report Number: KS1020

Korea - Republic of

Post: Seoul ATO

Functional Food Market Brief

Report Categories:

Product Brief

Approved By:

Michael Fay, Director

Prepared By:

Christina Fogarasi

Report Highlights:

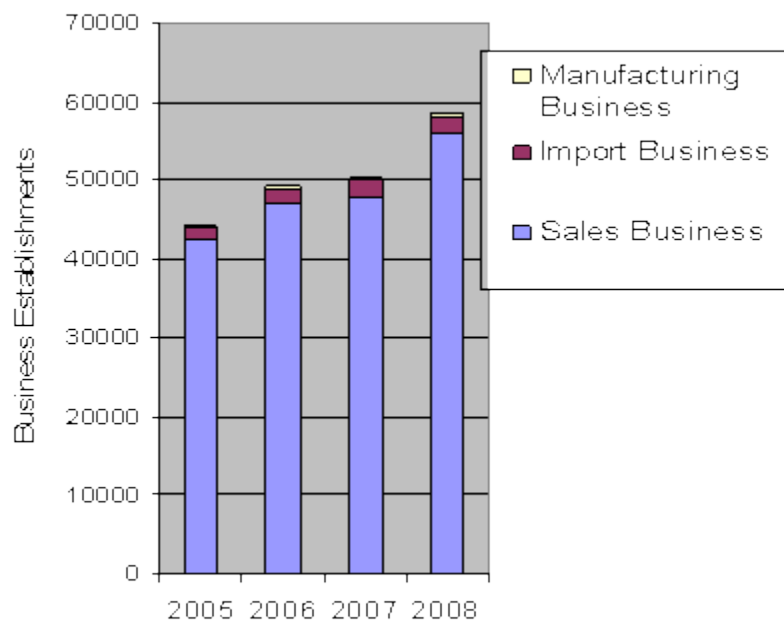
American products make up the majority of Korean functional food imports. In 2008, the United States exported over \$150 million in functional foods to South Korea. The Health Functional Food Act (2004) narrowly defines the functional food market in Korea and mandates that all functional foods be recognized by the Korea Food and Drug Administration. A complex certification/recognition process deters many importers, so domestic products compose the bulk of the market. Nonetheless, the functional food market is rapidly increasing (app. 10% annually) and Koreans are very attracted to American products.

General Information:

Author Defined:

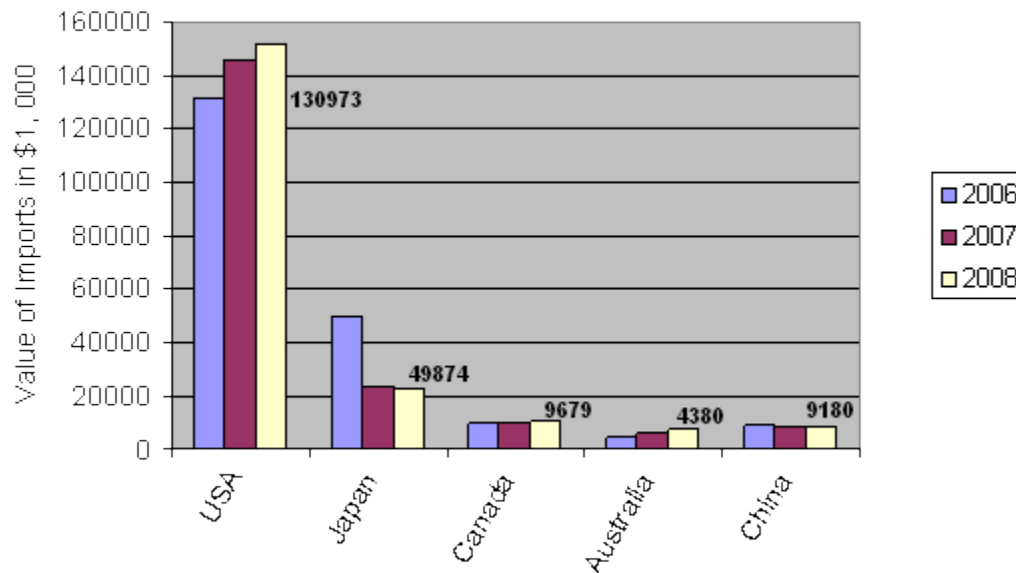
I. MARKET OVERVIEW

- South Korea, a \$4-5 billion market for U.S. agricultural, fishery, and forestry products, represents the 5th largest U.S. market for agricultural products worldwide. The nation is approximately the size of the U.S. state of Indiana and home to 50 million people.
- Unlike other markets, functional foods (health foods) are narrowly defined in South Korea, by the Korea Food & Drug Administration (KFDA).
 - A functional food is a “*food manufactured or processed in a form of tablet, capsule, powder, granule, liquid or pill, etc. with ingredients or components, that possess the functionality useful for human body*” (2004).
 - Note: The bulk of this report pertains only to products which meet the above KFDA definition and are recognized by KFDA as functional foods (or applying for recognition). Nonetheless, under **MARKET ACCESS** there is useful information for products which are often considered health foods, but are not officially recognized by the KFDA as functional foods.
- South Korea is a major market for functional foods. While Koreans have always been extremely health-conscious, health and “well-being” became a trend in the late 1990s. The functional food craze ultimately developed into a permanent and expanding sector of the Korean market.
- The Korean market for functional foods has experienced significant growth in the past years, from \$2 billion in 2004 to app. \$2.5 billion in 2009. Some sources estimate a future annual growth rate of around 10 percent.



Graph 1: 2005-2008 Number of Functional Food Business Establishments (KFDA 2007-2009)

- The U.S. has been and continues to be the leading exporter of functional foods to South Korea since the market blossomed in the early 2000s. Japan, the second-largest exporter, remains over \$100 million behind the U.S. in the overall value of its functional food exports.
- The U.S.' market share is likely to increase to an even greater extent, once the ratification of the KORUS FTA eliminates the 8 percent tariff.
- KFDA requires all functional foods to obtain KFDA recognition. If the food does not contain one of the 37 ingredients (see **Appendix**) deemed generic functional ingredients by KFDA, the producer must supply research on the ingredient.



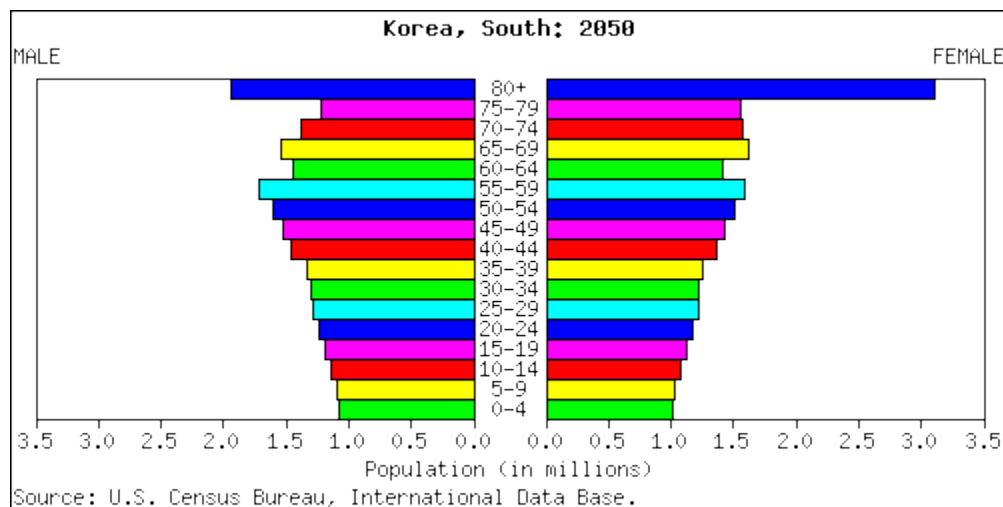
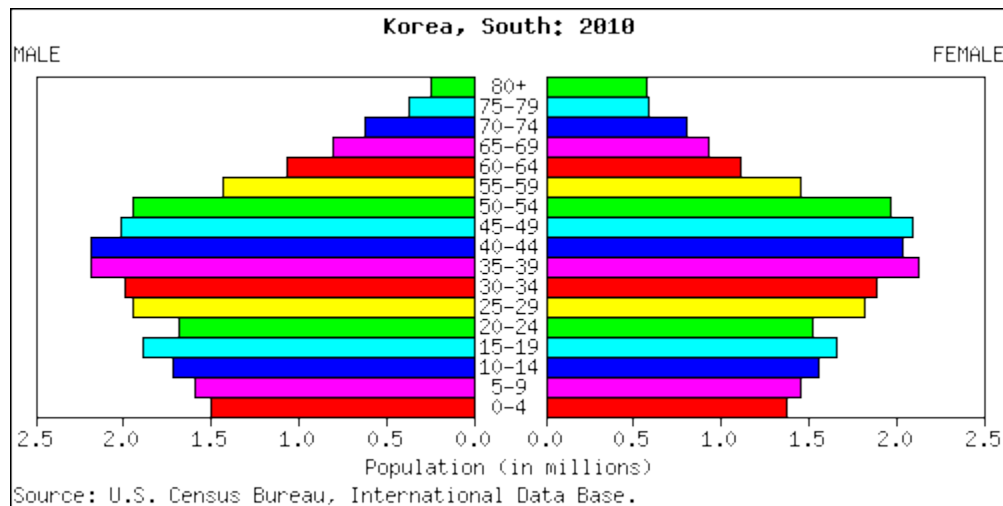
Graph 2: Top Exporters of Functional Foods to South Korea 2008 (KFDA 2009)

I. MARKET SECTOR OPPURTUNITIES AND THREATS

Market Advantages and Disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none"> Using food as medicine or preventative medicine is part of Asian traditional culture, stemming from the widespread use of ancient Chinese Traditional Medicine Korea's population is ageing, meaning there will be greater focus on the health benefits of food (according to the Korean National Statistic, the avg. life expectancy in 2050 will be 86, with 34.4% of the population over 65)¹ Women, who tend to be more concerned with health than men, will make up the majority of the ageing population Korea's declining birthrate means more families will have only one child, for which they provide premium care (organic food, dietary supplements, etc.) The Korean lifestyle is becoming busier and more stressful than ever, resulting in more health concerns 	<ul style="list-style-type: none"> Imported functional products are often 2-3 times more expensive than domestic products for consumers, due to import and KFDA recognition costs The certification process for functional foods is time-consuming, especially if the functional food is not already considered "generic" by the Korea Food & Drug Administration Korean consumers are more trusting of domestic/natural products, than imported products, and are very conscious of where their food is produced

- Korea is currently in the midst of a ‘well-being boom’ that began in the early 2000s



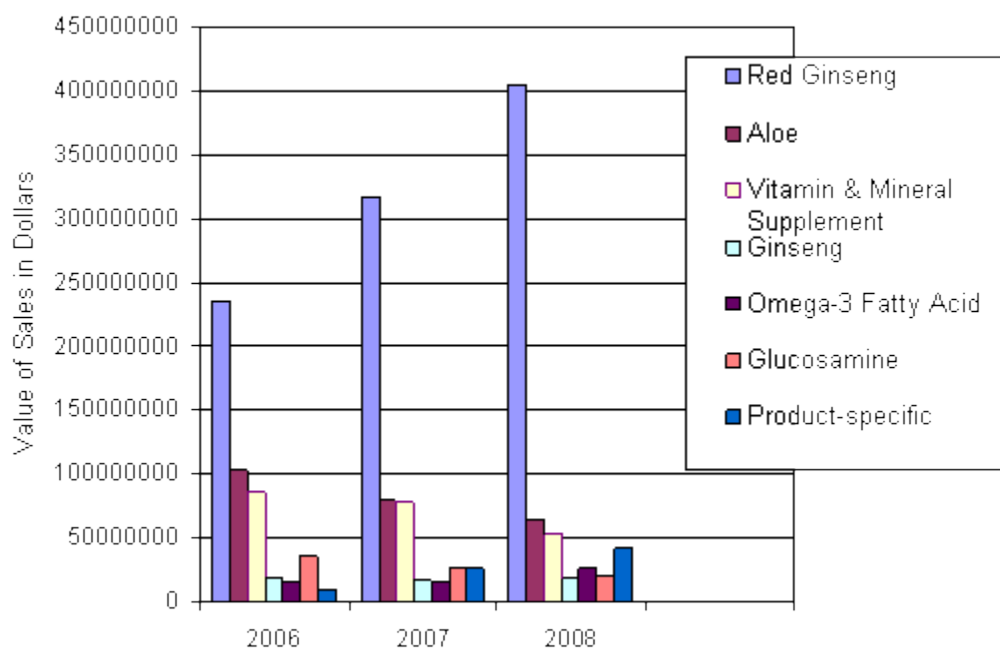
Graph 3: South Korea’s Increasing Elderly Population (“Korea, South Population Pyramid for 2010, 2050”)

Market Trends

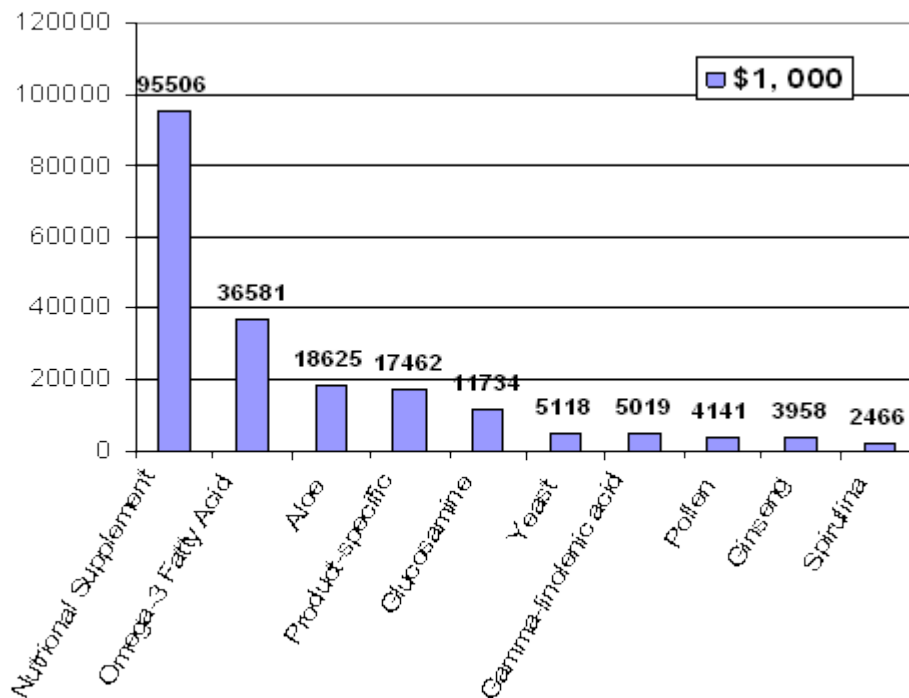
- The Korean functional food market consists wholly of products recognized by KFDA. Most products sold contain one of the 37 generic ingredients, however some products receive product-specific certification.
- As mentioned previously, other products, which are often considered functional foods in various countries, are not necessarily considered functional foods in Korea, because they have not received KFDA recognition.

Functional Ingredients

- *Red ginseng* dominates the functional food market in Korea, as the top-selling functional food ingredient for the past several years. With its numerous health benefits, especially its energizing qualities, red ginseng sales are continually increasing.
- *Aloe, vitamin and mineral supplements, glucosamine, and omega-3 fatty acid* are all ingredients which retain large market shares as well.
- Herbal ingredients are often considered more “trustworthy” among Koreans, as Korean traditional medicine utilizes only natural ingredients.
- In 2008, *dietary fiber (supplements)* and *probiotics* both made significant jumps in sales (KFDA 2009).
- The growth of *product-specific* functional food ingredients suggests the increasing consumer preference for products issuing health claims. In addition, the increase is also indicative of consumers’ willingness to experiment with new, previously un-established functional food ingredients. In other words, more companies apply for product-specific recognition so their product can boast health benefits, which attract consumers.



Graph 4: 2006-2008 Sales of Functional Food Products (KFDA 2007-2009)



Graph 5: 2008 Imported Functional Foods by Value (KFDA 2009)

Functions

- Sources suggest that functional foods targeting obesity, skin care, immunity (triggered in part by the 2009 H1N1 epidemic), and ageing will grow in popularity.
- The increase in stressful, sedentary workplace environments, has sparked an increase in the incidence of lifestyle-related disease, especially cancer and cardio-vascular disease, among Koreans. Hence, functional foods aimed at preventing or alleviating such diseases will grow in popularity.
- Functional foods for the ageing population will see a boost, especially once the next generation becomes elderly.
- For men, hair care products are popular.

Functional Products

- Functional drinks, such as vitamin water, sports drinks, and smoothies, are well-liked. Smoothie King, for instance, has around 50 locations in South Korea (Smoothie King 2009).
- Korean consumers are quite receptive to functional food substitutes and additives for conventionally unhealthy food items. For instance, red ginseng ice-cream and grape seed oil

(instead of vegetable oil) have both successfully emerged in the functional food market.

- The effectiveness of a product heavily impacts its sales; chlorella functional foods sales dropped steadily after consumers found that the products did not fulfill their advertised claims (Hwang 2009).

Distribution Channels

- Functional foods are available from local importers/distributors, manufacturers of pharmaceuticals or food/beverage, drug stores, large retail stores, online stores, and home shopping cable TV channels.
- A local distributor may exclusively cover all of South Korea or the master distributor may contract with multiple regional sub-dealers.
- The primary international subsidiaries work directly on advertising and sell either through multi-level marketing or direct sales, with their own sales network (Chay 2004).

Competition

- Well-established corporations make up the majority of suppliers of functional foods, due to the fact that the mandatory KDFA recognition process for functional foods is costly and time-consuming.
- As of 2009, KFDA has recognized 356 manufacturers of functional food and 2,395 import establishments. Nonetheless, local production dominates the market, because of the high prices of imported goods.
- Currently, major foreign importers include Amway, Herbalife, Usana, Melaleuca, and Sunrider. The imported functional foods are mainly designed to be used for weight-loss or as a nutritional-supplement. For instance, Melaleuca exports fiber bars, while Amway produces a health supplement called Nutrilite, which accounts for the majority of its sales.
- CJ Corp., Daesang, and Lotte, are all key domestic manufacturers. CJ Corp. frequently works with ginseng, Daesang produces functional foods which replace conventionally unhealthy foods, and Lotte is famous for its Xylitol gum, which claims to improve dental health.
- Other well-known functional food businesses include Nam Yang Aloe, Kim Jung Moon Aloe, Pulmuone, Daesang, Han Mi Pharmaceutical, Su-Heung Capsule, Rexgenebiotche Co., and Il Jin Pharmaceutical. They produce products with ginseng, aloe, glucosamine, and as well as many other functional ingredients.

I. MARKET ACCESS

Labeling

Under Korean law, all food and agricultural imports must list the following information on their label in legible Korean.

1. product name
2. product type
3. importer's name, address, and address where products can be exchanged or returned in case of defects
4. manufacture date (month, year)
5. shelf life or expiration date
6. contents (weight, volume)
7. ingredient names and content
8. nutrients
9. other items (i.e. cautions, standards for use or preservation, high-caffeine)
10. country of origin

Functional foods require the following *additional information* on their label:

1. indication of functional food
2. information on efficacy claim
3. intake directions and cautions
4. statement that product is not a pharmaceutical product that prevents or heals disease
5. other points outlined in the detailed labeling guidelines for functional foods ("Quality Standards Korea")

For detailed information, please visit:

<http://www.spring.gov.sg/QualityStandards/etac/food/Documents/Korea.pdf>

Korean Health Functional Food Act – applies to products recognized or desiring recognition as a health/functional foods by the KFDA

- As established by the Korean Health Functional Food Act (2004), functional food certification by the KFDA must be obtained when using one of the 37 generic functional ingredients (see **Appendix**) or when issuing a health claim with a product.
- When certifying a new ingredient as a functional ingredient for a functional food, two paths may be taken.
 - Certify ingredient as a new generic functional ingredient.
 - Certify ingredient as a functional ingredient, which is product-specific (only considered a functional ingredient when used in a certain product).

- Documents required at each step for product-specific certification or new ingredient certification is listed below. The documents are reviewed by government officials, nutritionists, members of consumer unions, and members of the industrial sector.
1. Standardization
 - a. provide information on “special characteristics of functional ingredient (incl. yield and change in content of functional component)”
 2. Safety evaluation
 - a. provide information on “history of use, manufacturing processes, amount to be consumed, results of toxicity tests, results of human study, and results of nutritional evaluation and bio-availability”
 - b. provide data showing scientific validation of safety of active ingredient
 3. Efficacy evaluation
 - a. provide data substantiating the functional food’s claim – “component and reliable scientific evidence”
 - b. when applying to certify the functional food ingredient as a generic functional food, the KFDA will perform its own efficacy trials
 4. Specification
 - a. provide sample final product
 - b. provide “documentation on the method used to analyze the functional component and, if the decision is made to grant approval for the product as a health/functional food, confirms the period of conformity and hygiene specifications” (Kim 2006)
- Once certified, a functional food is allocated to one of four grades on the basis of scientific evidence, which in turn determines the level of the health claim a product may issue.
 - This claim categorization system is compatible with the guidelines established by the 2004 Codex Alimentarius Commission (Kim 2006).

Scientific Evidence	Claim Allowed
Significant scientific agreement	<i>Can help reduce the risk of (disease)</i>
Convincing	<i>Can have a beneficial effect on...</i>
Probable	<i>May improve...</i>
Insufficient	<i>May have possibility to improve..., but the evidence is limited and not conclusive</i>

Table 1: Grades of Health Claims for Functional Foods (Kim 2006)

Enforcement Regulation of the Food Sanitation Act – applies to products NOT recognized as

health/functional foods by the KFDA

- Products not recognized by the KFDA as health/functional foods are limited in the health claims they may make. These claims must follow guidelines listed below.
- The claim must be verified by scientific research.
- The claim may
 - Name the nutrient in the product (i.e. Calcium, vitamin, iron, amino acid)
 - Name the contents of the nutrient (amount and function) in the product
 - “This product contains [number] mg. of [name of nutrient] which is necessary for [function]”
 - For example, “This product contains 2 mg. of calcium, which is necessary for bone and tooth formation.”
- The claim should not make reference to a disease (Ministry of Health and Welfare).
- Products not recognized by the KFDA as health/functional foods, but designed with a specific health purpose in mind, may still be considered *special nutritional foods* by the KFDA.
 - A special nutritional food refers to “*food for people requiring special nutritional care such as infant, babies, patients, the elderly, obese people, pregnant women, nursing women and etc. as their meal and containing ingredients may be insufficient for them; such food is manufactured by combining the nutrients or adding/subtracting specific nutrients and includes infant formula, other infant and baby formula, nutrient supplement food, food for medicinal purpose, food for weight control and etc.*” (KFDA 2006).
- Products considered special nutritional foods must be in one of the following categories.
 - Toned milk
 - Infant formula
 - Follow-up formula
 - Cereal based infant formula
 - Miscellaneous baby and infant formula
 - Medicinal food
 - Foods for body weight control
 - For specific definitions, please see
http://safefood.kfda.go.kr/RS/food_eng_menu2.jsp?menu=040&click=list&level=2&step_2=012&step_3=
- Products classified as special nutritional foods may specify the select group of people for whom the nutrients are especially beneficial.

- “This product helps supplying nutrients for [select group of people].”
- For example, pregnant/lactating women, elderly people, recovering patients, etc.

Import Regulations

Exporter must include the following forms with the shipment:

1. Attachment Form 19 (Import Notification Form)
2. Shipment documents (Bill of Landing, Invoice, Packing List)
3. Ingredient Specifications and Manufacturing Procedure, and Certificate of Analysis issued by manufacturer
4. Korean language product label (must be placed on product prior to importation into Korea) (see **Labeling**)
5. Other, if applicable (“Quality Standards Korea”)

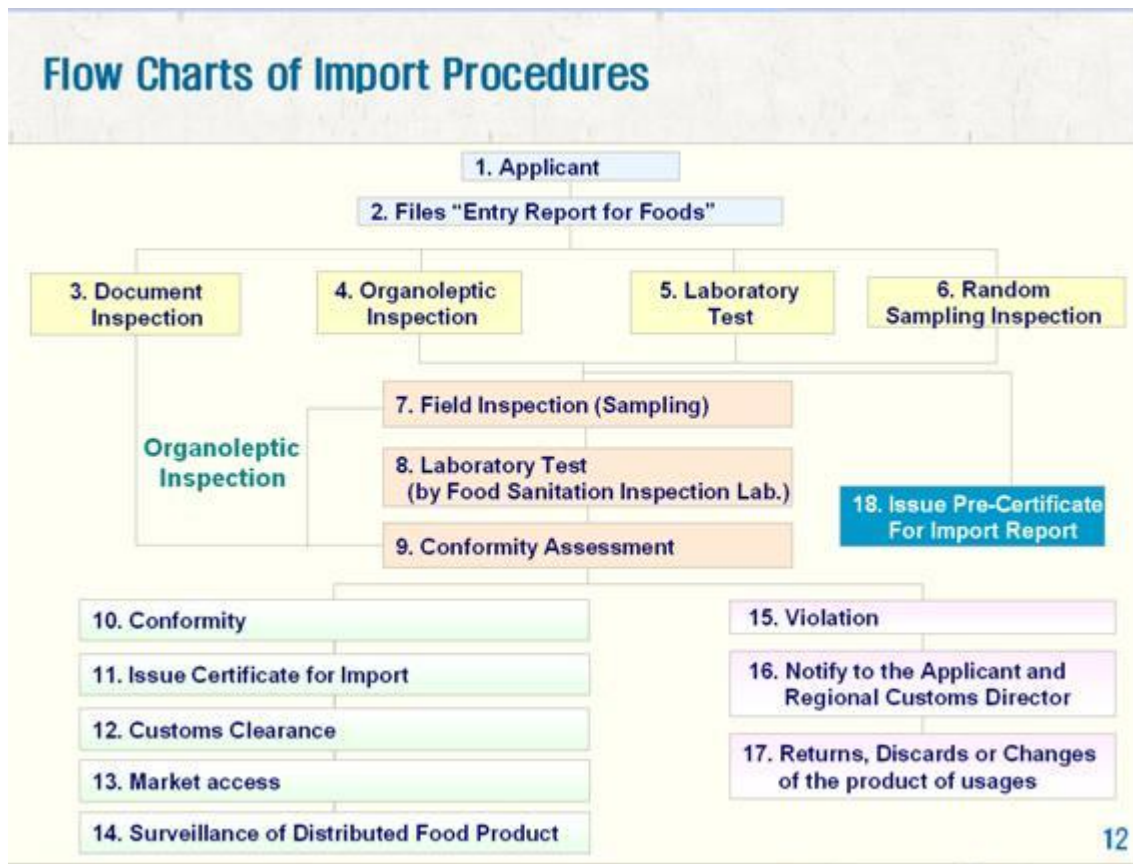


Chart 1 : Korean Import and Inspection Procedures (KFDA)

Tariff

The tariff is 8 percent for most functional foods.

V. ENTRY AND MARKETING STRATEGY

Entry Strategy

- In South Korea, large, metropolitan environments, like Seoul and Busan, are ideal for health and functional food products. Customers in these areas tend to over-work themselves and lead lives of stress. Consumers are also well-educated, well-off, and concerned about their health. They often turn to functional foods to compensate for the toll their lifestyle takes on their physical being.
- A Korean business representative can help navigate the functional food certification process. Given the complex and relatively recent nature of the Health Functional Food Act, importers the certification process for registering a new functional food as well as the process for importing a generic functional food can be difficult.
- Trade shows allow exporters to develop relationships with key contacts in the functional food industry.
 - **Busan Health and Food Expo** takes place in Busan, the second-largest city in South Korea, from **Nov. 18-21, 2010**. The show includes a health zone, with medical and fitness equipment, as well as a food zone, concentrating on functional foods.
 - **Seoul Food and Hotel 2011** is the leading food trade show in Korea, held annually in May. In 2010, the show facilitated over 2, 000 booths and 25, 000 trade visitors. The 2011 show will be held in the Korea International Trade Exhibition Center (KINTEX) in **Goyang-si, Korea**.
 - **Vitafoods Asia** is a two day trade-show in **Hong Kong from Sept. 7-9, 2011**. The show focuses on functional foods, functional drinks, and other health items. Vitafoods Asia brings together over 2, 000 visitors from Asian markets as well as over 150 global exhibitors. Visit <http://www.vitafoodsasia.com/> for more information.
- Direct contact with potential importers is also recommended. ATO Seoul can provide a list of potential importers of functional foods for interested exporters. ATO Seoul can also help facilitate a visit to Seoul and provide a meeting space for discussions with importers.

Marketing Strategy

- Korean costumers respond well to advertising and are often willing to try a product based on its claim. Ingredients and claims directed at the nation's major health concerns nowadays (listed in **Trends**) are likely to have the most success.
- Consumers of functional foods are often in one of the following groups:

- Middle-/upper-class
- Elderly
- Family with one child
- Middle-aged women
- Well-educated
- Business-people

VI. KEY CONTACTS AND FURTHER INFORMATION

Helpful Websites

- U.S Dept. of Commerce Korea 2004 publication on Nutritional Supplements
http://www.buyusainfo.net/docs/x_3946025.pdf
- Korean Health Functional Food Act (revised 2006)
http://www.kca.go.kr/web/img/kca/eng/12_3%20ENFORCEMENT%20RULE%20OF%20THE%20HEALTH%20FUNCTIONAL%20FOOD%20ACT.doc
- Import Regulations http://www.atoseoul.com/information/regulations_policies_02.asp

Further Information

U.S. Agricultural Trade Office

Korean Address:

Room 303, Leema Building

146-1, Susong-dong, Chongro-ku, Seoul, Korea

U.S. Mailing Address:

U.S. Embassy Seoul, Unit 15550-ATO

APO, AP 96205-5550

Telephone: 822 397-4188 Fax: 822 720-7921

E-mail: atoseoul@fas.usda.gov Website: www.atoseoul.com

APPENDIX

37 Generic Functional Ingredients (Kim 2006)

Nutritional supplement	Grape seed oil product
Ginseng product	Fermented vegetable-extract product

Red ginseng product	Mucopolysaccharide product
Eel oil product	Chlorophyll-containing product
EPA/DHA-containing product	Mushrooms product
Royal jelly product	Aloe product
Yeast product	Japanese apricot-extract product
Pollen product	Soft-shelled-turtle product
Squalene-containing product	Beta-carotene product
Yeast-containing product	Chitosan-containing product
Probiotics-containing product	Chitooligosaccharide-containing product
Chlorella product	Glucosamine-containing product
Spirulina product	Propolis-extract product
Gamma-linolenic acid-containing product	Green-tea-extract product
Embryo bud oil product	Soy-protein-containing product
Embryo bud product	Phytosterol-containing product
Lecithin product	Fructooligosaccharide-containing product
Octacosanol-containing product	Red yeast rice product
Alkoxy-glycerol-containing product	

Works Cited

Chay, Yoonshil. *Nutritional Supplements*. Rep. Commercial Service Korea, 2004. Web.

30 June 2010. <http://www.buyusainfo.net/docs/x_3946025.pdf>.

Hwang, Jae Sung. "Development and Industry of Health Functional Food in Korea."

Food Science Technology Res. 15.1 (2009): 1-4. Web. 25 June 2010.

<http://www.jstage.jst.go.jp/article/fstr/15/1/1/_pdf>.

Kim, Ji Yeon, Kim, Dai Byung, and Lee, Hyong Joo. "Regulations on health/functional

foods in Korea." *Toxicology*. 221 (2006): 112-118. Web. 28 June

2010. <<http://www.sciencedirect.com>>.

Korea Food and Drug Administration. Food and Drug Statistical Yearbook 2007,

2008, 2009. Nov. 2009. Raw data.

Korea Food and Drug Administration. "Introduce on Imported Foods System in Korea." Web. 28 June 2010.

<http://www.delkor.ec.europa.eu/home/newsevents/2005events/document_files/Food%20Safety_KFD A.ppt#256,1,Introduce on Imported Foods System in Korea>.

Korea Food and Drug Administration. "Special Nutritional Food." *Standards and Specifications by Food Type*. Korea

Food Drug Administration, 2006. Web. 2 July 2010.

<http://safefood.kfda.go.kr/RS/food_eng_menu2.jsp?menu=040&level=2&step_2=012>.

Korea, South Population Pyramid for 2010, 2050. Digital image. *NationMaster.com*.

2010. Web. 25 June 2010. <http://www.nationmaster.com/country/ks-korea-south/Age_distribution>.

"Quality Standards Korea." 25 Sept. 2008. Web. 28 June 2010.

<<http://www.spring.gov.sg/QualityStandards/etac/food/Documents/Korea.pdf>>.

Republic of Korea. Ministry of Health and Welfare. *Enforcement Rule of Health*

Functional Food Act. 2006. Web. 25 June 2010.

<http://www.kca.go.kr/web/img/kca/eng/12_3%20ENFORCEMENT%20RULE%20OF%20THE%20HEALTH%20FUNCTIONAL%20FOOD%20ACT.doc>.

"Smoothie King Expansion Signals International Trend Towards Healthy Eating."

Smoothie King. 29 July 2009. Web. 25 June 2010.

<<http://www.smoothieking.com/press-releases/2009-07-29-japan.php>>.